June 2017

The

MARKET CALL

Capital Markets Research

First Metro Investment Corporation
Metrobank Group

UA&P
University of Asia and the Pacific

FMIC and UA&P Capital Markets Research

Executive Summary

PH Investment-Led Growth Narrative Intact

- Q1 GDP growth eased to 6.4% from 6.6% in Q4-2016 mainly due to a high base -- 'election period'.
- Capital goods imports surged by 24.9% in March, the 16th time in last 24 months.
- Robust investment spending continued to characterize Q1 growth and beyond.
- Capital goods imports put back-to-back over 20% growth in February and March.
- Foreign direct investments (FDIs) up by 11% in January to February 2017.
- Manufacturing jumped by 11.1% in March, the fifth consecutive double-digit growth.
- Inflation decelerated to 3.1% in May from 3.4% in March and April, from low food and oil prices.
- External demand in March boosted exports by 21% and OFW inflows by 11.8% to all-time high.
- Negative news came from weak National Government spending which fell by 4.4% in April.

Macroeconomy

- March exports zoomed up by 21%, bringing Q1 growth to its fastest pace in 13 quarters.
- Manufacturing's solid 11.1% March expansion showed up in eight out of 20 sectors gaining in double-digits.
- NG recorded its 2nd surplus this year of P52.8 B in April, with spending down by 4.4%.
- Inflation eased by 3.1% from 3.4% (March-April) brought about by lower food and crude oil prices.
- Money growth (M3) remained modest at 11.2% in April allowing the Monetary Board to keep key policy rates.
- ***Outlook: The Philippine economy is expected to record a stronger growth in H1 and hit a 7% (or higher) full-year growth as robust investment spending continues and foreign direct investments perks up. Higher peso equivalent of the remittances and the slower inflation upticks should encourage more consumption. NG's promise to accelerate infrastructure spending should shore up domestic demand. Moreover, the improved external demand should be a positive catalyst to GDP growth.***

Bonds Market

- With weak economic data in the U.S., local bond yields tracked the downward trend of U.S. Treasuries.
- Higher secondary trading volumes in both GS and corporate bonds for May reflected improved demand.
- Yields in auctions of short-term Treasury bills fell by 2.3 bps to 9.4 bps.
- Yield of 7-year bond issue stayed flat, while the 10-year surged by 129.3 bps and the 20-year by 158.7 bps.
- GS trading increased by 60.1% (m-o-m) and 18.1% (y-o-y) as yields generally trended downward.
- The yield curve steepened as the 10-year to 2-year bond spread climbed by 67 bps.
- ROP-19, ROP-32, and ROP-37 yields fell slightly, although a bit more than the slide of U.S. Treasuries.
- ***Outlook: Amidst an imminent 25 bp Fed hike in June, domestic factors such as liquidity, stable to lower inflation and lower-than-expected NG deficits should keep domestic bond markets active until Q3-2017. The yield curve may steepen as short-end demand continues to exceed long-end, despite a possible softening of yields for the latter. Investors may look to take advantage of opportunities when the market overshoots (either upside or downside).***

Equities Market

- PSEi continued its upward trend, despite slightly slower Q1 GDP growth and the Marawi terrorist attack.
- The property sector shares rose by 9.7% retaining its top performer spot in April.
- Property issues MEG (+15.8%), SMPH (+13.1%) and ALI (+11.6%) registered double-digit gains due to high recurring income growth in Q1-2017.
- While Industrials posted the only negative sectoral performance, PCOR skyrocketed by 20.5% as it doubled is net income due to higher sales volume driven by the strong car demand.
- Foreign investors remained buyers by P8.6 B, posting hefty purchases in back-to-back months.
- ***Outlook: PSEi's ebullient run up of 7.8% in April and May suggest short-term correction, especially in the light of the usually weak months of July and August. However, the positive sentiment, especially among foreign investors, in the light of the approval of the first package of the Comprehensive Tax Reform Program (in the Lower House) and the "Build-build-build" plan move to improve infrastructure, will provide the market sufficient fuel to retain a positive outlook for the rest of the year.***

Economic Indicators (% change, latest month, unless otherwise stated)	Previous Month	Latest Month	Year-to-Date	2015 (year-end)	2016 (year-end)	2017 FMIC Forecast*
GDP Growth (y-o-y, quarterly)	6.6%	6.4%	6.4%	5.9%	6.8%	7-7.5%
Industrial Output (Mar)	10.7%	11.1%	9.6%	2.4%	9.0%	9.5%
Inflation Rate (May)	3.4%	3.1%	3.2%	1.4%	1.8%	2.8- 3.2%
Government Spending (Apr)	4.1%	-4.5%	1.9%	12.6%	18.0%	15%
Gross International Reserves ($B) (May)	82.0	82.1	82.1	81.6	80.7	85
PHP/USD rate (May)	49.86	49.86	49.94	45.50	47.49	51
10-year T-bond yield (end-May YTD bps change)	5.24%	5.00%	34.4	4.10%	4.63%	4.8-5.1%
PSEi (end-May YTD % change)	7,661	7,837.1	14.2%	6,952.1	6,781.2	7,500

Sources: Philippine Statistics Authority (PSA), Bangko Sentral ng Pilipinas (BSP), Philippine Stock Exchange (PSE), Philippine Dealing System (PDS), and Authors' Calculations

PH Investment-Led Narrative Growth Intact

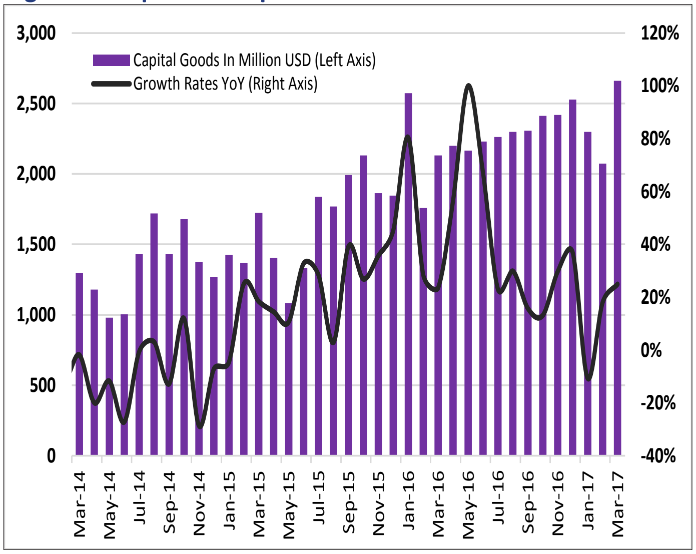
The Investment-led growth of the Philippine economy remained intact, despite a slight slowdown in GDP growth in Q1 to 6.4% from 6.6% a quarter ago, as capital goods imports' rise exceeded 20% once more in March, foreign direct investments (FDI) up 11% in the first two months of 2017, and Manufacturing output continues to notch double-digit gains. Inflation has receded to 3.1% in May from 3.4% in April, as food prices stabilized and fuel prices dipped. The fly in the ointment seems to be the tepid pace of government spending which has resulted in a year-to-date (YTD) April budget deficit of 6% of projected full-year deficit.

Outlook: Capital goods imports should resume its elevated growth path starting Q2, while the Manufacturing sector maintains its pace of double-digit gains. The two, underpinned by FDIs and heavier infrastructure spending, should keep the shine on the country's Investment-led growth. Consumer spending should recover from the "weak" Q1 record as OFW peso remittances trek an above-10% growth trend and the Industry sector's stronger output gains create more jobs. Monetary policy should be on hold in H1 as headline inflation has receded at the back of weaker crude oil prices and stable food prices. The peso may have vacation from its depreciation mode in the short-term but should resume that bias as the Fed raises its policy rates in June and as a more expansive U.S. budget emerges in Q4.

Capital Goods Imports Growth Back to Over-20% in March

Capital goods imports further accelerated to 24.9% ($2.7 B), following February's 18% increase. The double-digit growth in all sub-sectors resulted in this fast-pace acceleration, with five out of six posting an above-20% growth. The imports in tourism-related items registered significant increase (i.e., Aircraft, Ships and Boats (+166%), followed by Photographic Equipment and Optical Goods (+34.8%) and Land Transport Equipment (+34.1%).

Figure 1 - Imports of Capital Goods



Source of Basic Data: National Statistics Office (NSO)

The imports of Raw Materials and Intermediate Goods, Consumer Goods and Minerals Fuels, Lubricants, and Related Materials (which collectively comprised about 66% of total imports), likewise, posted significant gains, resulting in an overall import expansion of 24%. Total imports growth still outpaced the exports performance in March resulting in a trade deficit of $2.3 B.

Driven by the strong growth recorded in February and March, Q1 growth in capital goods imports increased by 11.8% to $7 B. We think that this double-digit gain will continue for most of 2017.

Foreign Investments Up 11% in Jan-Feb 2017

Foreign direct investments continued to pour into the country amidst strengthened investors' confidence in PH macroeconomic fundamentals. Net inflow in February stood at $366 M, higher by 7%. Higher inflows in the first two months resulted in a $1.1 B take, marking an 11% gain from a year ago levels.

Capital investments were mostly sourced from Japan, Hong Kong, and the United States channeled to wholesale and retail trade, real estate, manufacturing, financial and insurance, and art, entertainment and recreation activities.

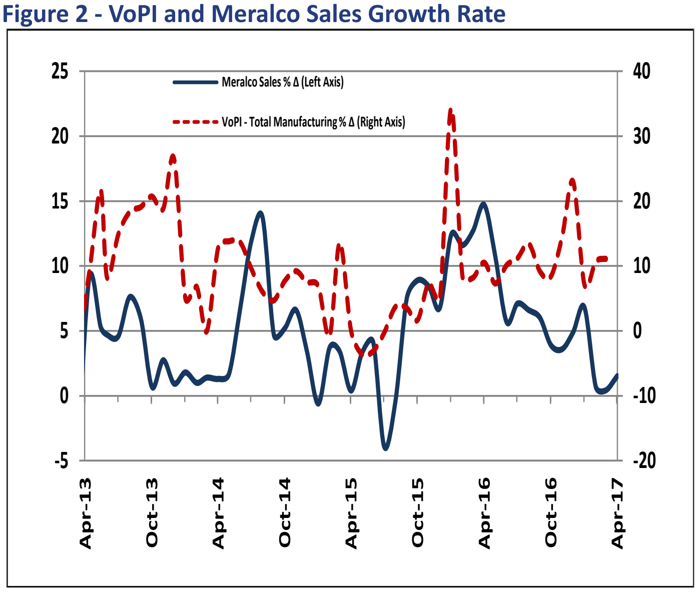
The GDP growth for Q1-2017 eased to 6.4%, missing the government target of 6.5%-7.5% and market consensus of 6.7%.

Manufacturing Output and Energy Sales Expand Further

Strong double-digit gains in eight out of 20 sectors resulted in the continued expansion of the country's manufacturing output (measured by Volume of Production Index or VoPI) to 11.1% in March, higher than the 10.7% in the previous month. The positive gains recorded in the past three months brought the first quarter growth to 9.6%.

Rapidly expanding sectors included Fabricated Metal Products (74.4%), Petroleum Products (+61.5%), Basic Metals (+28.2%), Transport Equipment (+54.4%), and Leather Products (+39.2%), among others.

Figure 2 - VoPI and Meralco Sales Growth Rate



Sources of Basic Data: Meralco & Philippine Statistics Authority

Manufacturing sector's vitality should spill into Q2 as energy demand in April, likewise, registered a year-on-year (y-o-y) increase of 1.5% amidst broad-based gains across sector led by the Commercial sub-sector (+2.5%). The heat of summer prompted more commercial and residential customers to use more air-condition units and electric fans. Residential energy sales registered a 1% increase, after recording negative growths in February and March. Energy sales in the Industrial sector also expanded by 0.8%.

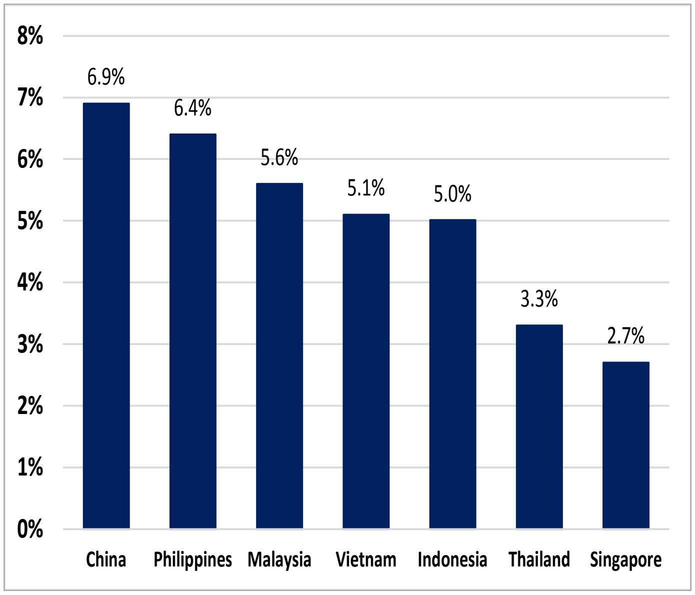
We will monitor closely the ability of Meralco electricity sales to mimic industrial production, since large retail consumers opting for direct open access (RCOA) to power producers would have a more significant negative impact on Meralco sales.

We believe that energy sales (commercial and residential) will continue to expand, despite the fact that students are on vacation. We also maintain our view that the manufacturing sector's vitality, which coupled with higher foreign investments into productive activities, should help sustain the economy's growth momentum in 2017.

PH GDP Growth Eases to 6.4% in Q1, Still Best in ASEAN

The GDP growth for Q1-2017 eased to 6.4%, missing the government target of 6.5%-7.5% and market consensus of 6.7%. The deceleration in consumption (+5.7% y-o-y) and the relatively flat government spending (+0.2 y-o-y) primarily led to this disappointing expansion. Moreover, the lackluster performance in the Mining and Quarry also weighed down the growth. The Philippine economy in Q1 grew faster than its other ASEAN neighbors but lagged behind India and China.

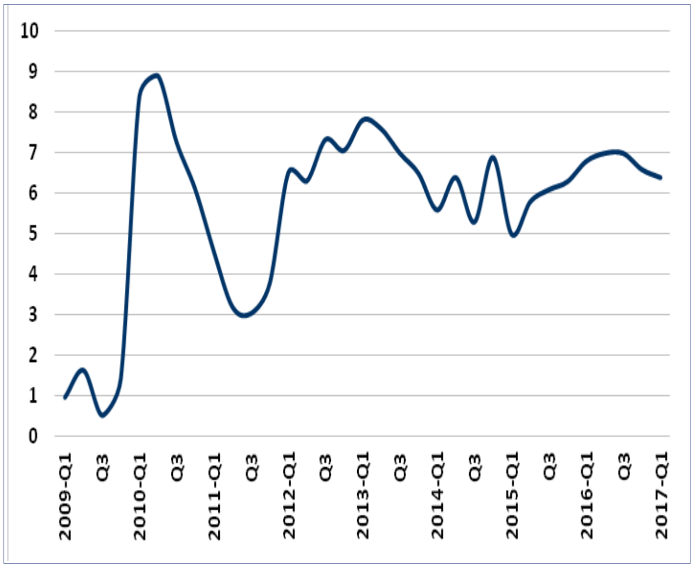
Figure 3 - GDP Growth of Selected Asian Economies in Q1-2017



Sources: Philippine Statistics Authority and Financial Times

The Services sector remained as the biggest contributor to GDP growth, adding 3.8 percentage points to overall growth.

Figure 4 - PH GDP Quarterly Growth Rate (Year-on-Year)



Source of Basic Data: Philippine Statistics Authority

On the production side, the rebound of the Agriculture sector by 4.9% from the 1.1% dip in Q4-2016 provided a good boost to the economy, since output had declined in six of the last seven quarters. However, this proved insufficient to cover for the slowdown in the Industry sector which expanded at a 6.1% pace from 7.5% in the previous quarter. Also the Services sector rose by 6.8%, significantly slower than the 7.5% in Q4-2016, but still faster than overall GDP growth.

With El Niño out of the way, the agricultural sector reversed its previous losses due to the gains in Palay, Corn and the Fishing sector. Palay and Corn output expanded by double-digits, posting growths of 12.4% and 23.4%, respectively. The Fishing sub-sector recovered, growing by 0.7% due to the increased production of tilapia, skipjack, yellowfin tuna and seaweeds, in contrast with the 3.8% fall in the previous quarter.

Overall, the Services sector remained as the biggest contributor to GDP growth, adding 3.8 percentage points to overall growth. Other Services posted the largest gain of 7.6% among the sub-sectors, driven by the expansion of Education which contributed 41.7% to the said sub-sector. Financial Intermediation accelerated to a 7.4% clip from 5.5% a quarter ago. Trade and Repair of Motor Vehicles, Motorcycles, Personal and Household Goods also boosted the Service sector up with an uptick of 7.1%, hastening from 6.5% in Q4-2017.

The weaker performance of the Industry sector may be attributed mainly to the 20% plunge in Mining and Quarrying (MAQ) and the sluggish 1.4% uptick of Electricity, Gas and Water Supply (EGWS), which was nowhere near the 9.2% increase in the previous quarter. Nickel mining's 55.3% plunge and copper mining output's 17.2% fall spelled for the Mining industry. This came about as a result of mine closures instigated by former DENR Secretary Gina Lopez. The sharp deceleration of EGWS from 9.2% in the previous quarter may be due to absence of election spending, and the end of El Niño.

Manufacturing continued to accelerate and drive the GDP growth as it increased by 7.5% (y-o-y) from 7% a quarter ago. Food manufacturing contributed the most, adding 3.6 percentage points to GDP. The rest of the manufacturing sub-sectors all experienced double-digit growths. Basic Metal Industries, Transport Equipment, and Petroleum and Other Fuel Product increased by 58.6%, 32.1% and 30%, respectively.

On the expenditure side, while all the domestic demand sectors experienced marked decelerations, Capital Formation (Investments) spending still posted an above-average gain of 7.9%. And despite Household Consumption Expenditures (HHCE) expanding by 5.7%, this came in much slower than the 7.2% posted two quarters ago and 6.2% a quarter ago. This easing may be attributed to high base caused by heavy election spending in Q1-2016. For the same reason, Government Expenditures also slowed down to 0.2% in Q1-2017 versus the 4.5% recorded in the previous quarter.

Capital Formation spending showed a lower growth path after eight quarters of double-digit gains which peaked at 31.5% in Q1-2016. Fixed Capital (FC) expenditures still continued its double-digit expansion with an 11.8% growth, albeit trimmed down from 18.5% a quarter ago. Among FC's major components, investments in Construction increased by 9.9% in Q1-2017 picking up a bit from 9.3%

Exports of goods grew by 22.3% in Q1-2017, marking the country's highest growth since the third quarter of 2010.

in the previous quarter. Private construction, which comprised 81.6% of the total investments in Construction, expanded by 11.9%, faster than the 6.9% posted in Q4-2016. Construction of residential and commercial units continues to drive Private Construction. The other major FC component, spending in Durable Equipment still perked up by 12.5% in Q1-2017, but this slowed from 26.3% in Q4 last year.

The absence of election spending made itself especially felt in Food and Non-alcoholic Beverages, which comprised 39.7% of the total household expenditure, and slowed down to 5.7% (weaker pace since its 6.4% in Q1-2016). On the other hand, spending in some HHCE improved, such as: Housing, Water, Electricity, Gas and Other Fuels which rose 6.6% in Q1-2017 from 5.9% in the previous quarter; Education which gained by 12.1% from 7.7 % a quarter ago; and Recreation and Hotels which increased by 8% in Q1-2017 from 6.2% in the last quarter of 2017.

External demand finally provided a boost as the current account deficit declined to P184.8 B from P251.7 B in the previous quarter, at the back of exports rising faster than imports.

Exports of goods grew by 22.3% in Q1-2017, marking the country's highest growth since the third quarter of 2010. Hefty gains in the Control Instrumentation (+496.3%), Office Equipment (+171.4%), and Clothing Accessories (+97.6%) drove exports growth.

Despite the lower-than-expected Q1-GDP growth primarily due to a high base a year ago and the mining closure fiasco, it remained only slightly lower than the 6.6% tally in Q4-2016. Thus, we maintain our forecast of 7% (or higher) full year economic expansion in 2017, anchored on the revival of exports, the agriculture and manufacturing sectors. Likewise, we believe that infrastructure spending in the next quarters will gear up to a faster pace and provide a further booster for growth.

Inflation Slows Down in May

Significant price declines in most heavily-weighted indices, especially on food, beverage, electricity and fuel cushioned the price movements, resulting in a lower inflation rate of 3.1% in May. YTD price changes stood at 3.2%, well within the government's target (2% to 4%). Nine out of 10 price categories slowed down from the previous month.

Inflation Year-on-Year Growth Rates	Apr-2017	Mar-2017	YTD
All items	3.1%	3.4%	3.2%
Food and Non-Alcoholic Beverages	3.8%	4.2%	3.9%
Alcoholic Beverages and Tobacco	6.1%	6.3%	6.1%
Clothing and Footwear	2.2%	2.7%	2.7%
Furnishing, Household Equipment and Routine Maintenance of the House	2.3%	2.4%	2.4%
Health	2.4%	2.5%	2.6%
Transport	2.7%	3.2%	2.7%
Communication	0.2%	0.3%	0.2%
Recreation and Culture	1.4%	1.5%	1.7%
Restaurants and Miscellaneous Goods and Services	1.6%	1.5%	1.8%

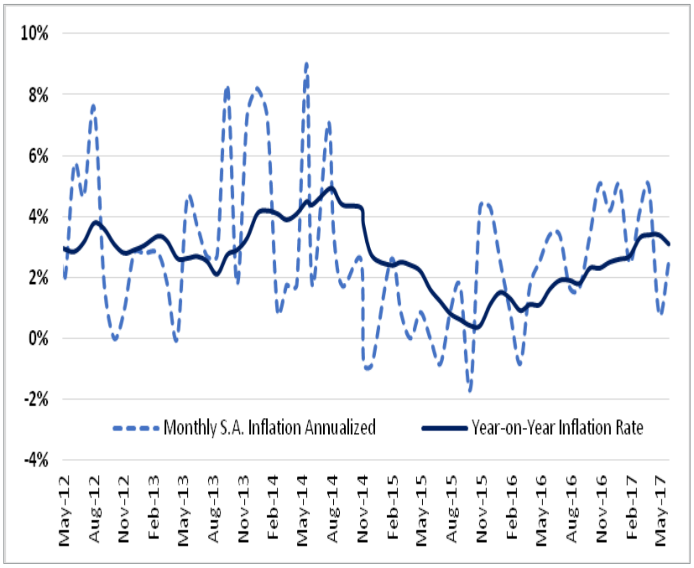
Source of Basic Data: National Statistics Office (NSO)

Note: Green font - means higher rate (bad) vs. previous month
Red font – means lower rate (good) vs. previous month
Not included in details are the items whose growth rate remained the same as in December.

The markdown in fuel prices led to notable declines in the Transportation index. Crude oil prices (i.e. WTI and Brent) reached its lowest level so far in 2017 to $48.50/barrel and $50.40/barrel, respectively. Prices of LPG, kerosene, gasoline and diesel similarly fell in most regions. Prices in key food items (meat, vegetable, fish) and beverages (both non- and alcoholic beverages) recorded price decelerations to bring down the Food and Non-Alcoholic Beverages (FNAB) and Alcoholic Beverages and Tobacco (ABT) indices. Meanwhile, lower charges in electricity maintained the past month's level of Housing, Water, Electricity, Gas, and Other Fuels (HWEGOF) index. Meralco electricity charges in May (residential customers) declined by P0.29/kWH to P9.60 per kWH due to lower generation costs amidst the downward adjustments of the cost of power coming from the Independent Power Producers (IPPs) and the PSAs (Power Supply Agreements).

The growth in money supply remained in-line with the BSP's outlook allowing the Monetary Board (MB) to keep policy rates.

Figure 5 - Inflation Rates Annualized, Year-on-Year



Source of Basic Data: National Statistics Office (NSO)

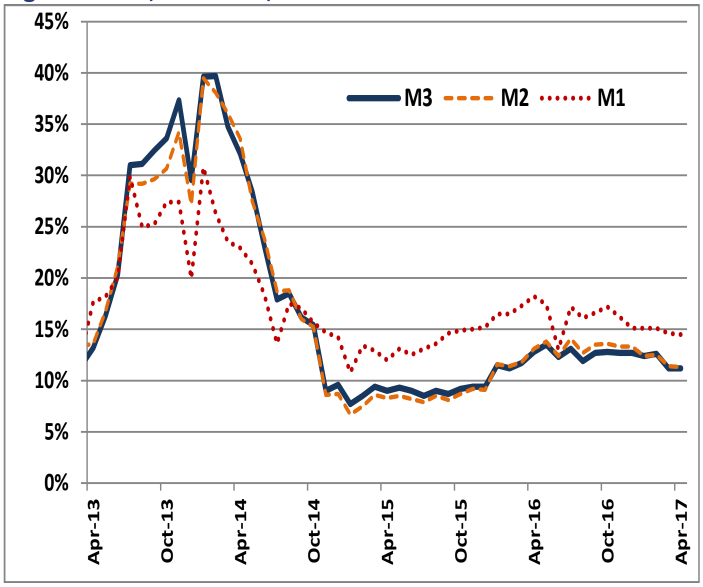
We expect headline inflation to continue to lodge within the target in anticipation of lower oil prices (which is likely to remain below $55/barrel for the rest of the year) amidst higher crude oil and shale oil production. We also believe that food supply will continue to normalize, but will have a short respite during the rainy season. The seasonally-adjusted annualized rate (SAAR) of inflation suggests of future price acceleration with SAAR moving from 0.8% in April to 2.5%.

MB Maintains Policy Rates, as Domestic Liquidity Gains Remain Modest

The country's domestic liquidity (M3) in April maintained the past month record, posting its 16th consecutive month of double-digit growth at 11.2% y-o-y. Meanwhile, Broad Money (M2) and Narrow Money (M1) both slowed down by 1 percentage point to 11.3% and 14.5%, respectively. The growth in money supply remained in-line with the BSP's outlook allowing the Monetary Board (MB) to keep policy rates (i.e. BSP's overnight reverse repurchase (RRP), overnight lending rates and deposit facilities) steady. It, likewise, maintained the reserve requirement ratios.

The continued expansion of money supply (although at a slower pace) drew support from the increase in loans for productive activities by 18.4% from 18.9% last month. Bulk of bank loans went to productive activities (i.e. Information and Communication (42%); Electricity, Gas, Steam and Airconditioning Supply (20%); Real Estate Activities (19%); and Manufacturing (16.4%), among others). Sustained by the inflow of OFW remittances and earnings from BPOs, the Net Foreign Assets (NFA) of monetary authorities continued to expand by 3.5%, albeit much slower than the 5.7% recorded in March.

Figure 6 - M1, M2 & M3, Year-on-Year



Source of Basic Data: National Statistics Office (NSO)

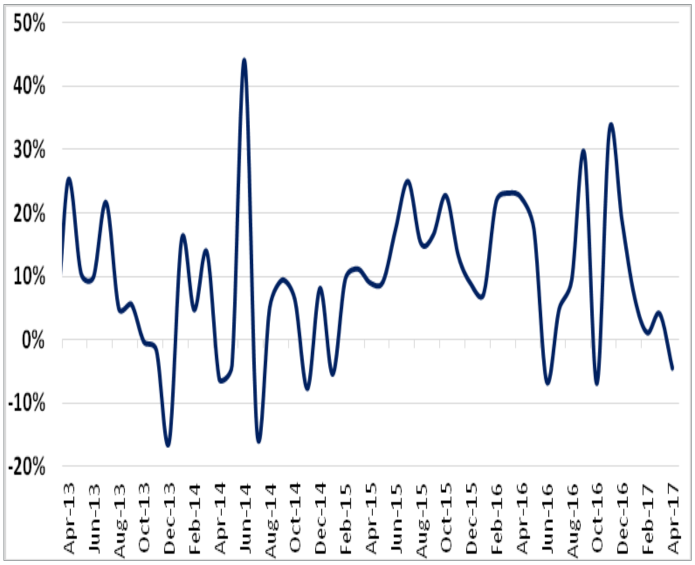
We maintain our view that MB will continue to maintain policy rates until H1 as money growth remains moderate and inflation still hovers in the mid-range of the BSP's target.

NG Records P52.8 B Surplus in April

NG revenue collection in April stood at P235.9 B, 4.4% lower than the year ago level. This revenue level, which far exceeded the government's disbursements, resulted in the 2nd surplus for the year to P52.8 B. The budget surpluses recorded this month and January shredded YTD deficit to P30.2 B, which only accounts for a paltry 6% of total target deficit for 2017 of P473.1 B (3% of GDP). This leaves sufficient fiscal space of about 94% of the full year target deficit available for other key projects.

Exports grew by 21% in earnings for the month of March, continuing with the double-digit growth since the start of the year.

Figure 7 - NG Expenditures Growth Rate, Year-on-Year



Source of Basic Data: Bangko Sentral ng Pilipinas (BSP)

NG spending in April, likewise, declined by 4.4% (to P183.1 B) but we believe that spending will accelerate in the coming months, especially with the still-wide fiscal policy space and the keen interest of the government to address the infrastructure gap. In fact, the Duterte administration's plans to spend P8.4 T over the next five years for its "Build, Build, Build" (BBB) Program.

The BBB program, unveiled in late 2016, included big ticket projects in railway and maritime sector (i.e. Light Rail Transit Line 1 to Cavite extension; the 19-km LRT Line 4 from Taytay, Rizal to Ortigas Avenue; the 19-km LRT Line 6 from Niyog, Cavite to Dasmariñas, Cavite; the 35-km PNR North Commuter Line from Tutuban to Malolos, Bulacan and another 55-km PNR North extension from Malolos to Clark, Pampanga; and the revival of the Pasig River Ferry Service, among others). The other projects were meant to address water supply, school infrastructure, healthcare, and airport quality.

The government said that it will exercise fiscal prudence (in terms of project allocation and borrowing) in financing the ambitious infrastructure projects. Finance Secretary Carlos Dominguez III mentioned that NG will mostly borrow from local sources and assured the public that projects will be put up in proper areas.

We believe that the roll-out of big-ticket PPP projects and the proposed tax reforms will result in an acceleration of the country's economic growth in H2.

Exports Continues Double-Digit Expansion

Exports grew by 21% in earnings for the month of March, continuing with the double-digit growth since the start of the year, driven by the sterling performance of the five top commodities. Total exports sales in March alone stood at $5.6 B. The remarkable gains in exports for the past three months resulted in a robust Q1 growth of 17%, the fastest in 13 quarters.

Noteworthy gains in Cathodes and Sections of Cathodes, of Refined Copper (+506.3%), Coconut Oil (+215.8%), Gold (+116.8%), Other Mineral Products (+80%), Machinery and Transport Equipment (+55.9%) and Other Manufactures (+47.5%), among others, largely propelled this month's growth.

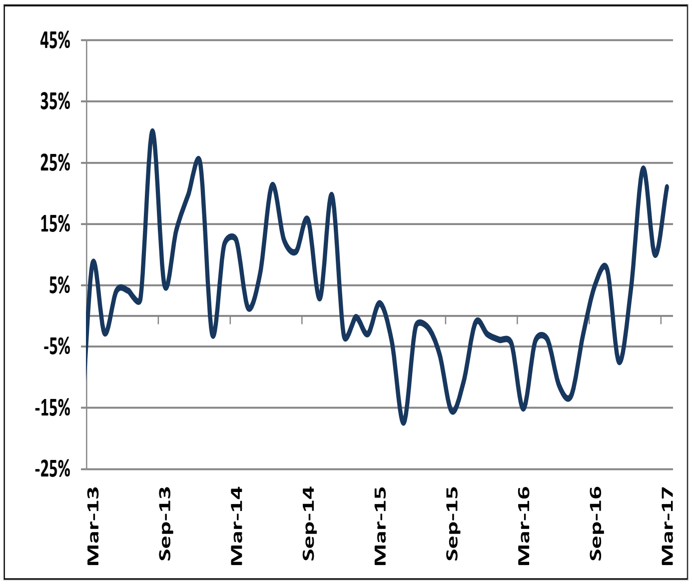
Electronic products persisted as the top export commodity, with total receipts worth $2.8 B, a 19% increase from its previous total last year. It accounted for 50.2% of total exports, with semiconductors garnering the biggest share at 36.3%. Machinery and Transport Equipment followed suit in second place with export revenue growing by a hefty 56% ($482 M). Other Manufactures ranked in third place, contributing 6.7% of total exports worth $375.3 M. It, likewise, recorded a sizeable 47.5% increase from its previous value of $254.4 M. Ignition, Wiring Set and Other Wiring Sets Used in Vehicles, Aircrafts and Ships ranked fourth, accounting for 3.3% of total shipments (or $182 M). It also registered a 20.2% increase from the $151.5 M it earned in the same month last year. Gold came in fifth place with a massive 116.8% (to $160.5 M) jump in shipment sales. Overall, it contributed 2.9% to total exports for the month of March 2017.

Exports to the USA grew by 20% to $809.9 M for the month of March, enabling it to retain the top export destination post with a 14.5% share to total exports. Hong Kong rose

Personal remittances sent by Filipino overseas kicked off by 11.8%, hitting a new record high of $2.9 B in March.

to second place with revenue worth $798.3 M, or 14.3% of total exports. It increased by a hefty 38.9% from the same month last year. Japan, on the other hand, fell to third place, as shipments to the country saw a 23.1% decline. China contributed 1.4% to total exports valued at $635.3 M, a 38.9% increase from its previous output. Singapore rounds off the top five countries with a 6% share to shipments. Earnings totaled at $335 M, representing an 11.8% increase from the $299.6 M it earned in the previous year.

Figure 8 - Exports Growth Rates



Source of Basic Data: National Statistics Office (NSO)

Almost half of the total exports headed towards East Asian (EA) nations, valued at $2.6 B. Total exports to the EA region still went up, posting an 8.9% increase. Commodities shipments to the ASEAN countries (comprising 14.9%), also registered a fast acceleration of 20.9%. ASEAN+East Asia ex-Japan accounted for 48.9% of total exports. Trade exports to the E.U., likewise, registered a whopping 56.2% gain.

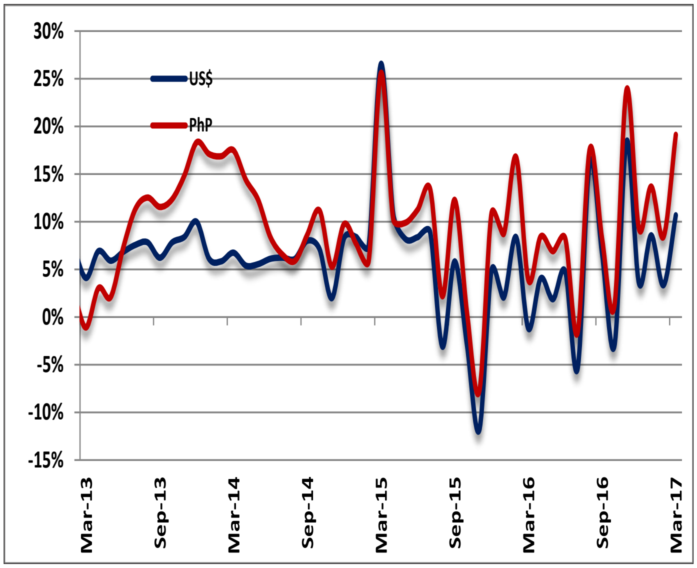
We believe that exports will continue its recovery at a fast pace as global demand improves, and will further add impetus to the fast-growing domestic demand.

OFW Remittances Kick Off in March

Personal remittances sent by Filipino overseas kicked off by 11.8%, hitting a new record high of $2.9 B in March. Strong remittances coming from United States, Canada, United Arab Emirates, Japan and Hong Kong (which offset the negative gains from other sources) propelled this remarkable growth.

Remittances in the first quarter totaled $7.7 B, up by 8.1% y-o-y. The robust gains in remittances drew its strength from the 10.4% increase in transfers from land-based workers, compensating for the 2% decline in remittances from sea-based workers.

Figure 9 - OFW Remittances Growth



Source of Basic Data: National Statistics Office (NSO)

Meanwhile, the 7.6% (y-o-y) peso depreciation in March resulted in a fast acceleration of the peso equivalent of the remittances to 19.1%. We think, however, that the brief respite in peso depreciation in Q2 will cause a slowdown in peso-equivalent growth.

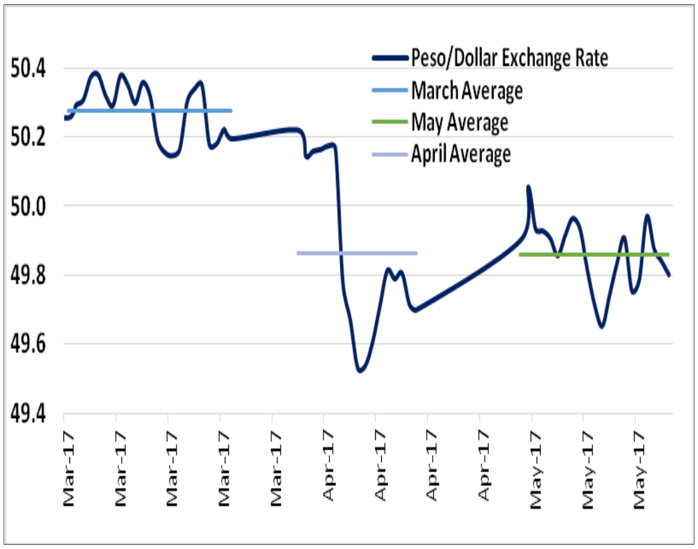
US/PHP Rate Flat in May

The US/PHP rate fluctuated over a narrow range and ended flat on average in May. The peso averaged at P49.86/$, representing a puny 0.01% appreciation from April. The ISIS-inspired attack on Marawi by Muslim Rebels created much uncertainties even though the U.S. dollar weakened in the 2nd half of May as the delayed fiscal stimulus in the

The US/PHP rate fluctuated over a narrow range and ended flat on average in May.

U.S. looked inevitable with President Trump under fire for alleged effort to have FBI's James Comey back off from the Flint-Russia investigation. President Trump's trade policies could have also weighed on the currency market. The exchange rate in May still posted the strongest level in three months, ranging to P50.05/$ from P49.65/$, narrowing the volatility measure to 0.10 from 0.25 in April.

Figure 10 - Daily Dollar-Peso Exchange Rate



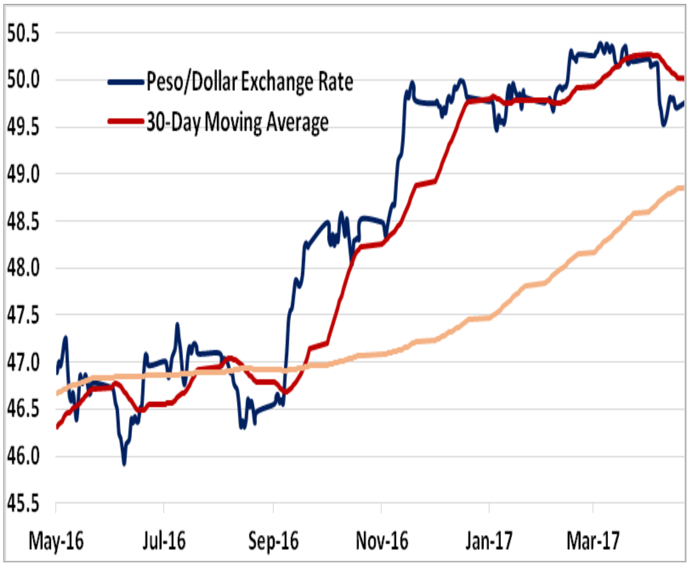
Source of Basic Data: Bangko Sentral ng Pilipinas (BSP)

Apart from the PH peso, other emerging currencies managed to beat the greenback, with India's rupee (INR) and Korean won leading the pack (posting a 5% appreciation YTD). The rupee strength came from Uttar Pradesh's intervention to strengthen the currency and from strong capital inflows. Malaysian ringgit (MYR), likewise, extended its rally amidst bullish gold trading and the positive economic fundamentals. Faster economic expansion and BOP surpluses in Indonesia helped preserve the rupiah's (IDR) strength. Indonesia's economy expanded by 5% in Q1-2017, faster than the previous quarter.

Exchange Rates vs US $ for Selected Asian Countries	
	May-17
AUD	1.4%
CNY	-0.0%
INR	-0.2%
IDR	0.1%
KRW	-0.7%
MYR	-2.0%
PHP	-0.0%
SGD	-0.4%
THB	0.1%

Note: Positive changes mean depreciation and negative changes mean appreciation against the greenback
Source of Basic Data: x-rates.com

Figure 11 - Dollar-Peso Exchange Rates & Moving Average



Source of Basic Data: National Statistics Office (NSO)

Actual US/PHP rate breached the 30-day moving average (MA) suggesting a bias for peso appreciation in the short-run. Nonetheless, the actual rate still lodged way above the 200-day MA supporting our view that the peso's strength is temporary and that it will be under pressure and start to weaken in late Q2.

Inflation should remain at around 3.2% until August since oil prices have been below $50/barrel (WTI) more often in May, while food prices continue to stabilize.

Outlook

While the 6.4% GDP growth in Q1 disappointed investors mildly, they could be explained by the effect of the former DENR Secretary Gina Lopez's anti-mining initiatives (-0.2% total impact), construction slowdown especially infrastructure spending (another -0.2%) and Electricity-Water-Gas' weak 1.7% gain (a final -0.2% deduction). In short, GDP growth could have been 7%. But although it didn't happen in Q1, we still expect a very strong (and lower base) H2 to offset the H1 "weakness" and still reach 7% growth for the full year 2017.

- With OFW remittances (especially in peso terms) up double-digit, and the Industry sector continuing to perk up, consumer spending should recover from a disappointing Q1 and clock closer to 6.5% in Q2.

- With capital goods imports shooting up by 25% in March and Industrial production in double-digit expansion also in March, we expect public construction (on infrastructure) to regain its double-digit growth pace starting Q2, so that domestic demand should be more robust for the next quarter.

- External demand is clearly a positive factor to GDP growth as exports to the U.S., E.U. and ASEAN have expanded at elevated rates with their improved economic performance and outlook.

- Inflation should remain at around 3.2% until August since oil prices have been below $50/barrel (WTI) more often in May, while food prices continue to stabilize.

- Money growth remains moderate and the Monetary Board does not have a compelling reason to raise policy rates in H1 even if the Fed proceeds with a 25 bp rate hike in June. MB's reaction may occur in Q3 at the earliest.

- NG underspending in Q1, which extended to April, may end in May as DBM has promised to accelerate fund releases and key departments (DPWH, DOTr) implement their spending plans.

- The Philippine peso may have a respite from its depreciation bias for a month or two, but the weakness should resurface in H2 once the Fed raises its policy rate and the Trump administration carries out its spending plans especially in defense, domestic security and infrastructures (late H2).

Forecasts

Rates	June	July	August
Inflation (y-o-y %)	3.1	3.2	3.2
91-day T-Bill (%)	2.12	2.12	2.14
Peso-Dollar (P/$)	49.3	49.5	49.8
10-year T-Bond (%)	4.59	4.59	4.64

Source: Authors' Estimates

Mixed Data & No Fiscal Stimulus Drag Long-Term U.S. Treasury Yields, Local T-bills Down

With U.S. consumer spending growth in Q1 at its slowest pace since Q4-2009 and sentiment down in May, inflation easing, and the ability of President Trump to pursue expansive fiscal policy unlikely any time soon, yields at the long end of U.S. Treasuries trended downward. This eased the pressure on domestic bonds, especially at the shorter-end of the curve. In addition, headline inflation rate appeared to have moderated, and NG showed year-to-date (YTD) deficit by April at only 6% of the projected full-year shortfall also contributed to a bit more of risk-taking by investors.

Outlook: Despite a likely 25 bps Fed policy rate hike in June, domestic factors – liquidity, stable to slower inflation, and lower-than planned NG deficits - domestic bond markets should continue to show more life into Q3, albeit with some degree of caution on the part of investors. We expect a steepening of the yield curve as short-end demand continue to outstrip the long-end, even though yields for the latter may still soften a bit.

Primary Market: Good Demand Brings Down Short End Yields

Average yields in May auctions went down slightly among treasury bills with similar volume of demand as the previous month, while treasury bond yields surged from their previous offerings as investors demanded higher risk premia for longer-dated paper.

The 91-day and 182-day T-bills both fell in yield by 9.4 bps and 3.6 bps respectively, to 2.205% and 2.602%. On the other hand, the 364-day T-bill was fully awarded at P4 B, as the tendered-offered ratio (TOR) rose to 2.4 from 1.6 in the last month. The TOR for the 91-day T-bill was at 2.9, down from 3.5 last month. Meanwhile, despite it being fully awarded, the TOR of the 182-day T-bill moved down to 1.5 from 1.8 in the previous month.

The 10-year treasury bond had a yield of 4.759%, up 129 bps from 3.466% last September 2016, as its TOR went down to 1.6 from 1.9 in in the same period. Nonetheless, the auction yield came close to secondary market rates. Meanwhile, the 20-year treasury bond had a yield of 5.104%, up from 3.855% last March 2015, with a TOR of 1.9 which is down from 2.9 in the same period. On the other hand, the 7-year T- bond had a yield of 4.519%, which came understandably around the same figure recorded in the previous month of April. This reflected weaker demand as its TOR of 0.9 fell from 1.5 a month ago.

T-Bills and T-Bonds Auction Results

Date	T-Bill/T-Bond	Offer	Tendered	Awarded	Tendered/ Offered	Average Yield	Bps Change from Previous Auction
T-Bills							
08-May	91-day	6.00	17.51	6.00	2.92	2.21	-9.40
	182-day	5.00	7.50	5.00	1.50	2.60	-3.60
	364-day	4.00	9.50	4.00	2.37	2.97	-2.30
Subtotal		**15.00**	**34.51**	**15.00**	**2.30**		
T-Bonds							
02-May	10-year	15.00	24.46	9.72	1.63	4.76	129.30
16-May	20-year	15.00	28.04	15.00	1.87	**5.10**	124.90
30-May	7-year	15.00	12.85	4.03	0.86	4.52	3.50
Subtotal		**45.00**	**65.35**	**28.75**	**1.45**		
All Auctions		**60.00**	**99.86**	**43.75**	**1.66**		

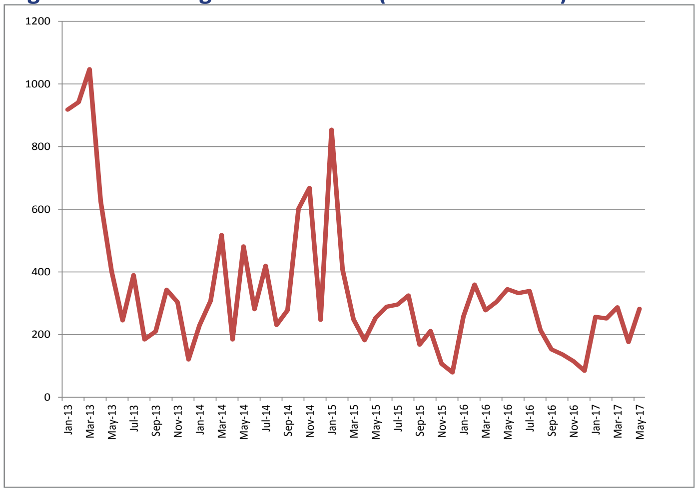
Source of Basic Data: Bureau of the Treasury (BTr)

Year-to-date trading volume also declined to P1.2 T recorded in May 2017 as compared to P1.5 T a year ago.

Secondary Market: Trading Improves in May

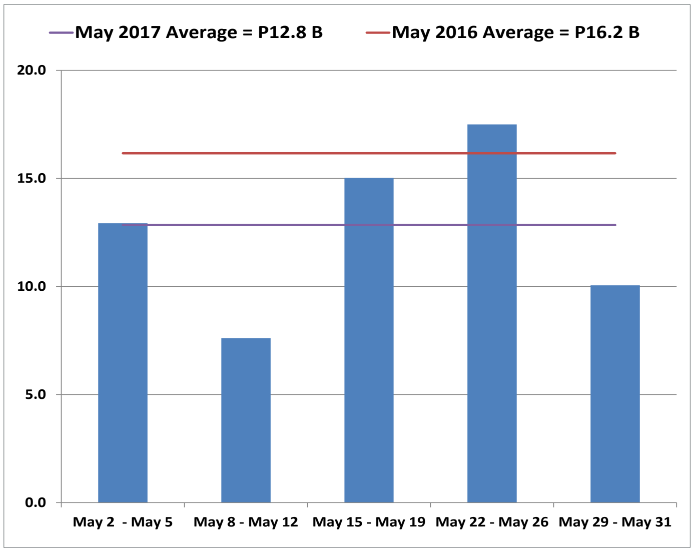
Total trading volume for May improved by 60.1% month-on-month (m-o-m) to P282.5 B from P176.5 B in April. This represents a decline of 18.1% year-on-year (y-o-y) from P345.1 B recorded last May 2016. The yearly decline in volume likely represents less availability of liquid, long-dated papers in the market. In addition, the YTD trading volume also declined to P1.2 T recorded in May 2017 as compared to P1.5 T a year ago.

Figure 12 - Trading Volume Trend (in Million Pesos)



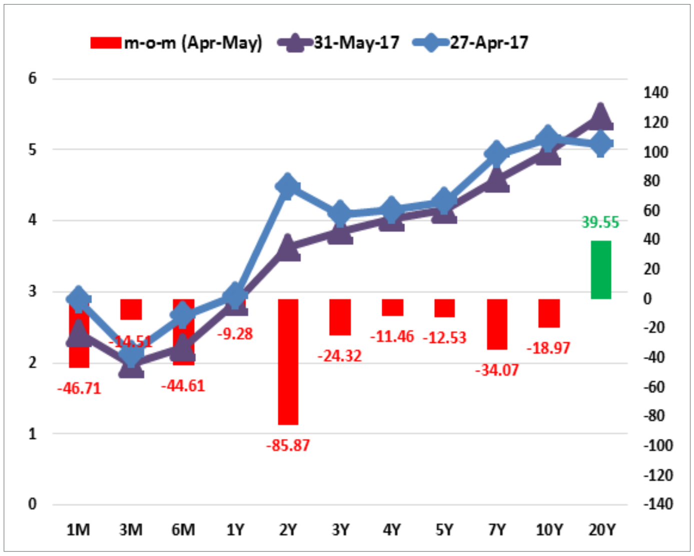
Source: Philippine Dealing Systems (PDS)

Figure 13 - Average Daily Trading Volume/Week (In Billion Pesos)



Source: Philippine Dealing Systems (PDS)

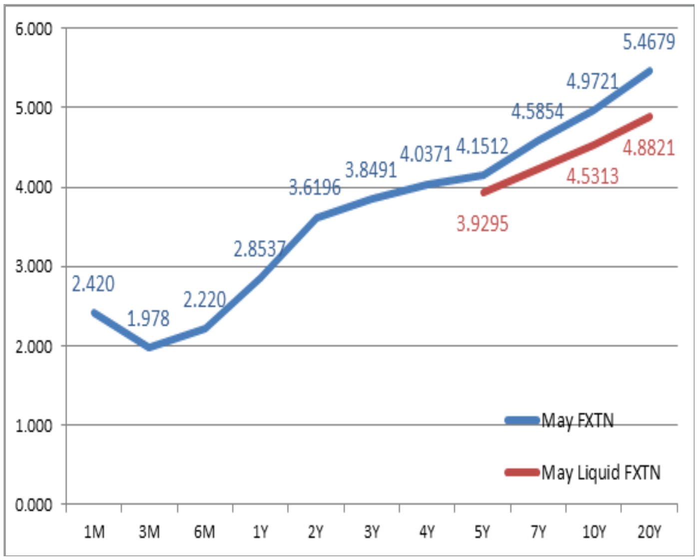
Figure 14 - PDST-R2 Yield Curves



Source: Philippine Dealing Systems (PDS)

Across tenors, yields saw generally negative movement this month. The 1-month and 2-year bonds fell sharply by 46.7 bps and 85.9 bps, respectively. On the other hand, the 20-year rose by 39.6 bps. 10-year to 2-year spread went up from 68 bps to 135bps, a spread change of 67 bps (See ASEAN +1 table below). The steeper yield curve reflects the larger fall in yields for the 2-year T-bonds.

Figure 15 - PDST-R2 vs. FXTN Yields (Month-end)



Source: Philippine Dealing Systems (PDS)

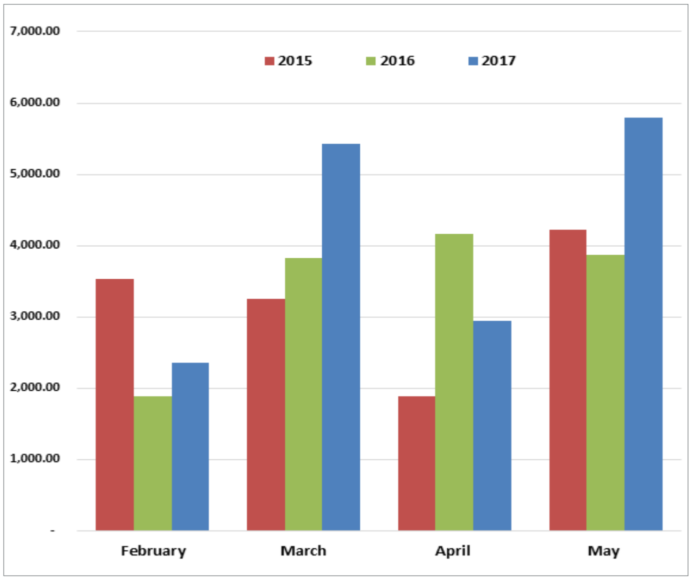
Overall secondary trading of corporate bonds for May 2017 reached P5.8 B, an increase of 96.6% month-on-month (m-o-m).

Liquid FXTN tenors continued to post lower yields than FXTN tenors under PDST-R2. The difference in the 20-year space got exaggerated as 20-year R2 showed a jump of 40 bps while FXTN-20-17 yields dropped by 5 bps.

Corporate Bonds: Trading Recovers Following the Uptick in GS Volumes

Overall secondary trading of corporate bonds for May 2017 reached P5.8 B, an increase of 96.6% month-on-month (m-o-m) from P2.9 B and a gain of 49.8% y-o-y from P3.9 B in May last year. The strong May performance brought up YTD trades by 23.1% to total P20.2 B from 14.9% a month ago.

Figure 16 - Total Corporate Trade Volume (In Million Pesos)

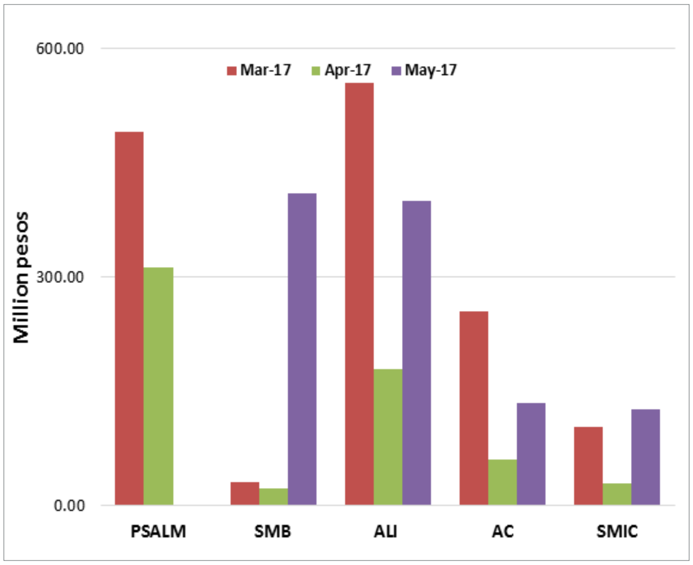


Source: Philippine Dealing Systems (PDS)

Bond trading volume of five leading corporate issues – Power Sector Assets and Liabilities Management (PSALM), San Miguel Brewery (SMB), Ayala Land, Inc. (ALI), Ayala Corporation (AC) and SM Investments Corporation (SMIC) – saw generally positive movement as trading activity improved for four of the five leading corporations.

SMB placed first, trading P409.5 M, up by 1,646.1% m-o-m. ALI and AC came in second and third, as the former traded P400.4 M a(+123.6% m-o-m) while the latter traded P135

Figure 17 - Corporate Trading (In Million Pesos)



Source: Philippine Dealing Systems (PDS)

M (+124.2% m-o-m). SMIC was next at P127.1 M, up by 339%. Of the top five, PSALM brought up the rear, with no trading at all.

Corporate Issuances & Disclosures

- SM Prime Holdings, Inc. (SM Prime) issued P15 B worth of 7-year peso-denominated bonds (Series G) at 5.17%. The proceeds from the retail bonds will be used to fund expansion of its malls and residential businesses.

- Ayala Land, Inc. raised P7 B via the issuance of fixed rate bonds due 2027 as the company primes itself for continued growth this year. The company plans to launch P117 B worth of projects this year, higher than its P87 B worth of projects last year, including three sprawling mixed-used estates.

- STI Education Services Group, Inc. issued fixed rate bonds totaling P3 B at 5.81% due on March 23, 2024 and another set of fixed rate bonds at 6.38% due on March 23, 2027.

In line with the slide in U.S. Treasury bond yields, Philippine dollar-denominated bonds (ROPs) yields also eased among the three liquid tenors.

- Double Dragon Properties Corporation filed a preliminary prospectus with the Securities and Exchange Commission (SEC) covering the issuance of the second tranche of its Fixed Retail Bonds with an indicative size of P6.5 B and an oversubscription of P3.2 B. The proposed issuance is part of the P15 B shelf registration that was previously approved by the SEC. Bulk of the proceeds from the bonds will be used to finance capital expenditures of Double Dragon's core projects which include City Malls, DD Meridian Park and Jollibee Tower.

- Vista Land & Lifescapes, Inc. registered P20 B Fixed Retail Bonds with the SEC under a shelf registration to be issued in tranches within a period of three years with an initial offering of P3 B pesos with an oversubscription of P2 B. The initial offering will be issued in up to two series, namely, Series A bonds that are due in seven years from issuance and Series B bonds that are due in 10 years from issuance.

- Philippine National Bank (PNB) obtained BSP approval on its plans to issue a new tranche of long-term negotiable certificates of time deposit (LTNCTD) due October 2022, amounting to P3.7 B. PNB also has the option of upsizing its issue size up to P20 B. The LTNCTD has an indicative interest rate of 3.75% annually. Proceeds from the fundraising will be used to extend the maturity profile of the company's liabilities and for general corporate purposes.

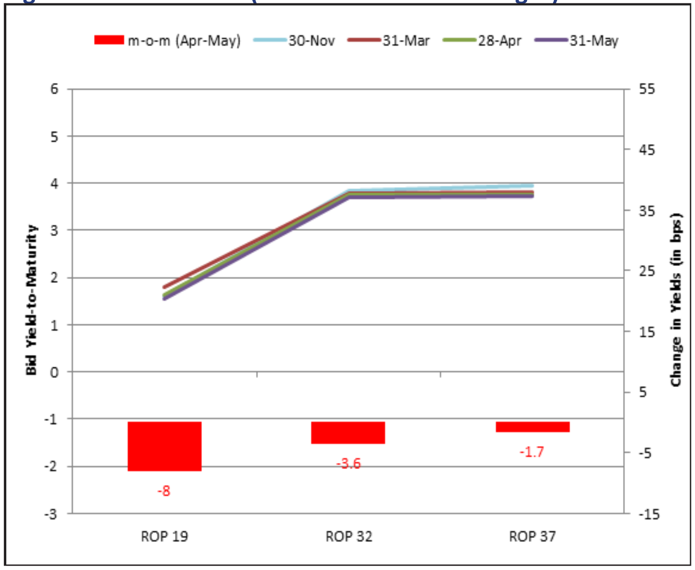
- SM Investments Corporation plans to issue Fixed Rate Series G Bonds due 2023 on June 7, 2017.

ROPs: Yields Slip More at Short End of Curve

In line with the slide in U.S. Treasury bond yields, Philippine dollar-denominated bonds (ROPs) yields also eased among the three liquid tenors. ROP-19, with 2 years to maturity, fell by 8 bps from 1.638% to 1.558%. ROP-32, with 15 years remaining to maturity, went down by 3.6 bps to 3.708%. ROP-37, 20 years from maturity, also mildly slid by 1.7 bps from 3.754% to 3.737%.

In comparison, U.S. Treasury bonds of similar tenors show that the 15-year paper's yield went down by 7.5 bps to 2.4%, and the 20-year bond fell by 7 bps to 2.6%. U.S. Treasuries, except for the 2-year T-bonds, then experienced larger drops than ROPs pushing up spreads slightly upwards. For the exception, the U.S. Treasury yield ended up flat, while ROP-19 took an 8 bps fall.

Figure 18 - ROPs Yield (Month-on-Month Changes)



Sources: First Metro Investment Corporation (FMIC) & Philippine Dealing Systems (PDS)

Figure 19 - ROPs Yields

Sources: Bloomberg & First Metro Investment Corporation (FMIC)

U.S. job creation in April bounced back from a disappointing March as nonfarm payrolls grew by 211,000, exceeding the market's expectation of 185,000.

ASEAN + 1 Market: Spreads Over U.S. Treasuries Narrow

U.S.: U.S. factory activity slowed in April, while consumer spending remained unchanged in March. On the other hand, job creation in April bounced back from a disappointing March as nonfarm payrolls grew by 211,000, exceeding the market's expectation of 185,000. With the robust job growth, unemployment rate fell to 4.4%, its lowest since May 2007. U.S. consumer confidence fell more than expected in May to 117.9 from 120.3 in the previous month. U.S. economic growth slowed less sharply in Q1-2017 than initial expectations amid a strong labor market that may be near full employment. Gross domestic product increased at a 1.2% seasonally-adjusted annual rate, marking its weakest performance since Q1-2016. Growth in consumer spending, which accounts for more than two-thirds of U.S. economic activity, only grew at a rate of 0.6%, its slowest pace since Q4-2009. Moreover, the Fed is widely expected to hike its policy rate in June, a move that would push the target range up to 1% to 1.25%. 10-year to 2-year spread inched down by 12 bps from 104 bps to 92 bps.

PRC: Deleveraging efforts by the People's Bank of China (PBOC) have greatly impacted the country's stock and bond markets as the Shanghai Stock Exchange Composite Index (SSEi) sharply dropped while the benchmark 10-year bond yield advanced by almost 100 bps to record a 25-month high of 3.68%. As a result, an estimated $500 B have been wiped out from local stocks and debt. Meanwhile, China's economy has also taken a toll as data shows that manufacturing output and factory gate inflation falling behind estimates for April. The market, however, expects company bond yields to rise as default rates in China are projected to increase in the next six to 12 months. Meanwhile, China's government increased access to its bond market through Hong Kong, opening another path for foreign investors after the central bank stemmed record capital outflows. This step is part of the country's latest efforts to open its capital markets and integrate them into the global financial system. Moody's Investors Service lowered China's credit rating, which was stable since March 2016, to negative, citing rising debt, falling currency reserves, and uncertainty over authorities' ability to carry out reforms. Moreover, while exports remain resilient on recovering global demand, early China data shows cooling economic growth in May, amid credit tightening. 10-year to 2-year spread fell sharply by 34 bps from 49 bps to 15 bps.

Indonesia: Monetary authorities sought to improve the country's financial markets by allowing a wider scope of derivatives. Specifically, they have eased trading restrictions by allowing cross-currency swaps and expanding the scope for foreign funds' participation. Also, the Bank Indonesia aims to grow the country's foreign exchange market to the equivalent of about 3% of the country's trade by 2020. Meanwhile, capital inflows increased Indonesia's foreign exchange reserves to $123.1 B in April, its highest level since 2015. On the other hand,

Spreads between 10-year and 2-year T-Bonds

Country	2-year Yields	10-year Yields	Projected Inflation Rates	Real 10-year yield	10 year to 2-year Spread (bps)		Spread Change (bps)	Latest Policy Rate	Real Policy Rate
					30-Apr-17	31-May-17			
US	1.282	2.203	2.30	-0.10	104.00	92.00	-12.00	0.75	-1.55
PRC	3.570	3.720	2.30	1.42	49.00	15.00	-34.00	4.35	2.05
Indonesia	6.542	6.953	4.20	2.75	41.00	41.00	0.00	4.75	0.55
Malaysia	3.251	3.880	4.00	-0.12	80.00	63.00	-17.00	3.00	-1.00
Thailand	1.494	2.710	0.80	1.91	123.00	114.00	-9.00	1.50	0.70
Philippines	2.854	4.972	3.30	1.67	68.00	135.00	67.00	3.50	0.20

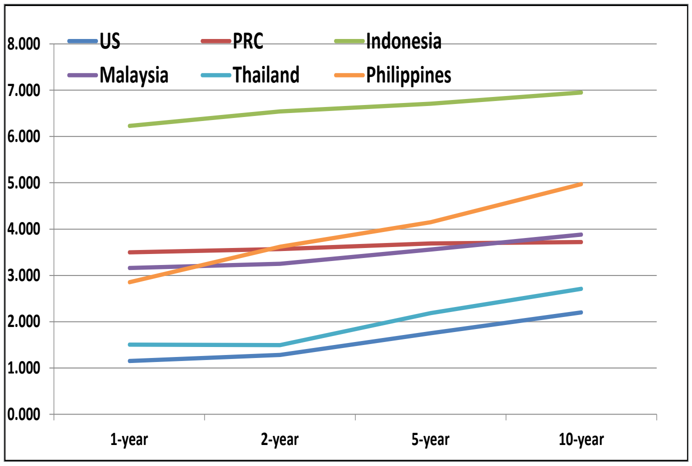
Sources: Asian Development Bank (ADB), The Economist & UA&P
**1-yr yields are used for PH because 2-yr papers are illiquid*

Thailand's consumer confidence surged for the fifth straight month on higher exports, rising farm prices and rebounding tourism.

exports declined for the month of April as the volume of oil and gas exports dropped. 10-year to 2-year spread remained unchanged at 41 bps.

Malaysia: The International Monetary Fund (IMF) views the Malaysian economy as resilient, citing a diversified production and export base, strong balance sheet position, flexible exchange rate, responsive macroeconomic policies, and deep financial markets. Bank Negara Malaysia has required banks to maintain a minimum of $97.5 M in capital funds as part of its efforts to ensure that the banks continue to perform its intermediation function effectively. Meanwhile, the ringgit reached a six-month high against the U.S. dollar at MYR 4.3125/$, following Malaysia's faster-than-expected gross domestic product (GDP) expansion in Q1-2017 driven by higher exports and improved manufacturing sector. 10-year to 2-year spread inched lower by 17 bps, from 80 bps to 63 bps.

Figure 20 - ASEAN Bond Yields



Source: Asian Development Bank (ADB)

Thailand: Consumer confidence surged for the fifth straight month on higher exports, rising farm prices and rebounding tourism. Meanwhile, the Thai stock market got hit by capital flight due to increased expectations of a U.S. Fed hike in June. On the other hand, the Bank of Thailand says that non-performing loans are expected to peak in 2017 after an economic recovery that began late last year. Exports rose for a second straight month in April, though less than expected, but the government is still confident that it can achieve its export target of 5% for the year. Thailand's economy expanded at its fastest quarterly pace in Q1-2017 in the last four years at 1.3%, boosted by recovering exports, but monetary policy is likely to remain loose to cushion the still-subdued investment activity. The central bank chose to maintain its key interest rate at 1.5% as monetary authorities believe that the current level continues to support economic recovery and that the growth outlook has improved despite global uncertainties. 10-year to 2-year spread moved slightly lower by 9 bps, from 123 bps to 114 bps.

Outlook

The Fed will likely raise policy rates by 25 bps in mid-June (with probability currently over 90%), but the markets may have priced in this probable move. We expect the rate hike to be gradual, nonetheless, this will constitute an important external development as it will confirm the Fed's plan to tighten monetary policy very gradually until 2019.

- Given the above domestic factors – overall liquidity, inflation accelerating or decelerating, and government deficits (depending on ability of the administration to ramp up spending) – will have a greater impact on bond yields through Q3.

- We think that liquidity will continue to abound, inflation likely to be stable or lower (absent higher excise tax rates on petroleum products under the government's Tax Reform Program), and lower budget deficits than planned, will combine to have a negative impact on yields, especially at the short end of the curve. Much of the adjustment at the longer end took place, even though yields there may soften slightly. Moreover, swings in yields are expected to provide opportunity for investors.

- The mad rush to issue corporate bonds should accelerate in June and Q3 as firms take advantage of the financial system's liquidity and low interest rates.

- Indonesian dollar-denominated bonds should continue to outshine ROPs, even though the latter remains attractive to local investors.

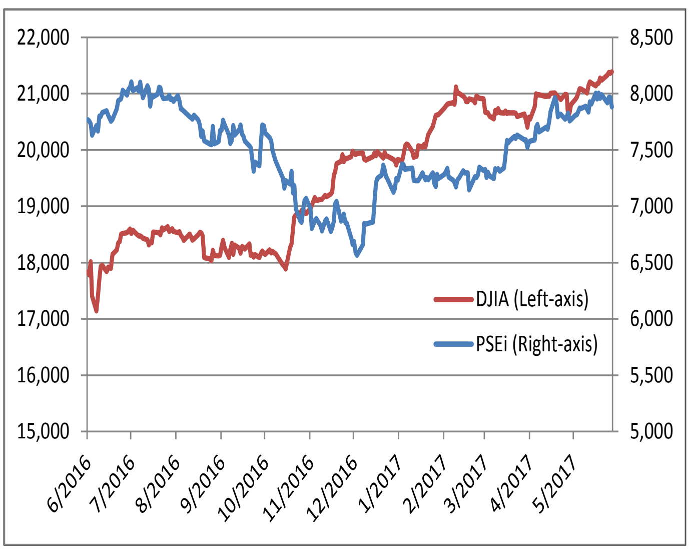
PSEi Continues Uptrend, as Foreign Investors Remain Bullish

The local bourse continued its upswing, albeit moderated, as investors, especially foreign ones, paid little heed to the Marawi (Mindanao) terrorist attack and the lower-than-expected Q1 GDP growth; rather they used their liquidity to buy-in on downturns. Falling long-term U.S. interest rates, reflecting growing skepticism on the ability of President Donald Trump to ramp up fiscal spending in the U.S., and less concern about local inflation in the face of weakening crude oil prices supported the sustained gains. Corporate earnings came in respectably, mostly in line with analysts' consensus.

Outlook and Strategy

With the PSEi playing around 8,000, and up 7.2% in the last two months, the index looks ready for a base-building consolidation. With positive investor sentiment, the market still has some gas to fuel further gains. However, bargain hunting is crucial as the market is prone to seasonal correction. The sentiment and outlook for H2 appears constructive in the light of the approval of President Duterte-backed Comprehensive Tax Reform Program (in the Lower House) and the "Build-build-build" plan move to improve infrastructure in the next five years. The latter draws on huge ODA commitments from Japan and China, and clear signals that the projects are moving ahead should act as catalyst for the market.

Figure 21 - PSEi and DJIA



Source: Bloomberg

The PSEi and Dow Jones Industrial Average's (DJIA) correlation eased slightly this month to 0.48 from the previous month's strong correlation of 0.64. The indices moved in the same direction, as investors remained upbeat throughout the month. The U.S. showed a healthy job market, as non-farm payrolls rebounded from the disappointing job data in March. PSEi showed resilience despite the declaration of Martial Law in Mindanao and the easing of GDP growth (+6.4%) in Q1-2017, with investors trading sideward with an upward bias.

Global Equities Markets Performances

Region	Country	Index	Growth Rate (m-o-m)	2017 YTD
Americas	US	DJIA	0.3%	5.7%
Europe	Germany	DAX	1.4%	8.8%
	London	FTSE 101	4.4%	4.8%
East Asia	Hong Kong	HIS	4.6%	16.2%
	Shanghai	SSEC	-1.2%	-0.6%
	Japan	NIKKEI	2.4%	0.3%
	South Korea	KOSPI	6.3%	15.7%
Asia-Pacific	Australia	S&P/ASX 200	-3.4%	-0.2%
Southeast Asia	Indonesia	JCI	0.9%	8.8%
	Malaysia	KLSE	-0.1%	8.0%
	Thailand	SET	-0.3%	-0.1%
	Philippines	PSEi	2.3%	14.2%
	Singapore	STRAITS	1.1%	10.8%

Sources: Bloomberg & Yahoo Finance

The PSEi slowed in May, increasing by 2.3% from 4.8% in the previous month. Most indices of Asia also grew moderately except for Korea Stock Exchange Index (KOSPI) which was the world's fastest growing index in May, increasing by 6.3%. Following closely behind KOSPI, Hong Kong Hang Seng Index (HSI) grew at 4.6%. YTD, PSEi ended up in 3rd place after Hong Kong and South Korea.

The Financial sector continued its growing trend, as it increased by 2.8% in May, building on the 3.7% gain in April.

Quarterly Sectoral Performance				
	27-Apr-17		31-May-17	
Sector	Index	% Change	Index	% Change
PSEi	7,661.01	4.8%	7,837.12	2.3%
Financial	1,887.10	3.7%	1,939.77	2.8%
Industrial	11,307.59	3.3%	11,061.28	-2.2%
Holdings	7,814.00	4.9%	7,825.61	0.1%
Property	3,326.25	6.4%	3,647.77	9.7%
Services	1,615.30	4.1%	1,674.89	3.7%
Mining and Oil	12,070.72	0.8%	12,474.02	3.3%

Source of Basic Data: PSE Quotation Reports

The PSEi decelerated, increasing by 2.3% (+ 176.1 points) in May. The Industrial sector was a lone dark spot in the board, as it took a dip of 2.2%. On the other side of the spectrum, the Property sector experienced the largest growth of 9.7%. The Service and Mining and Oil sectors also posted gains of 3.7% and 3.3%, respectively. Trailing closely behind, the Financial sector rose by 2.8% in May. Managing to end flat, the Holdings sector edged up by 0.1%.

Company	Symbol	4/27/17 Close	5/31/17 Close	% Change
Metrobank	MBT	84.5	87.5	3.5%
Banco de Oro	BDO	119.9	122.5	2.2%
Bank of the Philippine Islands	BPI	104.8	105.4	0.6%
Security Bank Corporation	SECB	213.2	217.8	2.2%

Source of Basic Data: PSE Quotation Reports

The Financial sector continued its growing trend, as it increased by 2.8% in May, building on the 3.7% gain in April. Metropolitan Bank & Trust Co. (MBT) led the sector again in May, as it jumped by 3.5% after it reported a net income growth of 6% year-on-year (P5.6 B) in Q1-2017. The rapid (+26%) expansion of its loan portfolio in Q1 drove earnings.

BDO Unibank, Inc. (BDO) posted moderate growth of 2.2% afterafter it announced its partnership with Seven Bank Ltd. of Japan to provide an international money transfer service to the Philippines.

Security Bank Corporation (SECB) posted a net profit of P2.8 B in Q1-2017, easing by 7.7% from the same period of the previous year. Interest income from loans which grew by 27% (y-o-y) was unable to compensate for the 70.5% plunge in trading gains.

Bank of the Philippine Islands (BPI) again ended relatively flat, with an uptick of 0.6% despite registering a 25.6% year-on-year (y-o-y) growth in net profit in Q1-2017. GIC Private Ltd., the state fund of Singapore, has bought a 6.3% stake in BPI at P100 per share through Liontide Holdings Incorporated.

Company	Symbol	4/27/17 Close	5/31/17 Close	% Change
Meralco	MER	280	274	-2.1%
Aboitiz Power	AP	42.5	39.3	-7.6%
Energy Development Corporation	EDC	6	6.1	1.2%
Jollibee Foods Corporation	JFC	210	204.6	-2.6%
Puregold Price Club Inc.	PCGMF	41.7	43.3	3.7%
First Gen Corporation	FGEN	21.5	19	-11.7%
Universal Robina Corporation	URC	172	162	-5.8%
Petron Corporation	PCOR	9.11	10.98	20.5%

Source of Basic Data: PSE Quotation Reports

The industrial sector ended in the red as it slumped by 2.2%, tapering its 3.3% gain in the previous month. First Gen Corporation (FGEN) dragged the sector down as it slumped by 11.7% despite its plans to take a 30% stake in the government's liquefied natural gas terminal project.

Aboitiz Power (AP) also experienced a major dip of 7.6% after its net income decreased by 13% due to foreign exchange losses.

Universal Robina Corporation (URC) weighed the sector down, as it suffered a major setback of 5.8% due to a 4% y-o-y decrease in net income in Q1-2017. URC claims that this slowdown is due to the decrease in sales (-14% y-o-y) of its flagship brands C2 and Refresh.

Jollibee Foods Corporation (JFC), not being able to maintain its strong performance (+6.3%) in the previous month, took a dip of 2.6% in May.

Petron Corporation (PCOR) skyrocketed by 20.5% as it posted a net income of P5.6 B in Q1-2017, doubling its income in Q1-2016.

Manila Electric Company (MER) also ended in the red, as it decreased by 2.1% due to an order by Energy Regulatory Commission (ERC) to refund P7 B worth of excess charges incurred by MER in the past three years.

Energy Development Corporation (EDC) grew slightly by 1.2% after it reported a recurring net income of P 3.3 B (+24% y-o-y) in Q1-2017. The income growth was due to the higher prices of geothermal energy and increased volume sales (+10%) from EDC's Unified Leyte geothermal plants.

Puregold Price Club Inc. (PGOLD) enjoyed moderate gains, as it rose by 3.7% because of its move to merge with Goldtempo Company Inc. PGOLD is now seeking the approval of Securities and Exchange Commission (SEC) and their shareholders. If approved, this merger will further increase the market share of PGOLD, as Goldtempo Company, Inc. owns several supermarket chains in Metro Manila.

Petron Corporation (PCOR) skyrocketed by 20.5% as it posted a net income of P5.6 B in Q1-2017, doubling its income in Q1-2016. The income growth was driven by higher sales volume, 38% more than the sales of Q1-2016. This dovetails with the continuing strong rise in car sales (+23% y-o-y) in Q1-2017.

Company	Symbol	4/27/17 Close	5/31/17 Close	% Change
Ayala Corporation	AC	866.5	868	0.2%
Metro Pacific Investments Corporation	MPI	6.58	6.27	-4.7%
SM Investments Corporation	SM	728	770	5.8%
DMCI Holdings, Inc.	DMC	12.86	13.44	4.5%
Aboitiz Equity Ventures	AEV	76.8	76.1	-1.0%
GT Capital Holdings, Inc.	GTCAP	1,260.00	1,195.00	-5.2%
San Miguel Corporation	SMC	110	108	-1.8%
Alliance Global Group, Inc.	AGI	14.8	15.5	4.6%
LT Group Inc.	LTG	15.96	16	0.3%
JG Summit Holdings, Inc	JGS	84.2	79.7	-5.4%

Source of Basic Data: PSE Quotation Reports

The Holdings sector ended flat in May, growing only by 0.1%. SM Investments Corporation (SM) led the sector with a moderate growth of 5.8%. SM posted a net income of P7.7 B (+8% y-o-y) in Q1-2017, driven by property segment which accounted for 44% of the profit.

Alliance Global Group, Inc. (AGI) listed an uptick of 4.6% due to 6.7% y-o-y growth in net income for Q1-2017 with the strong performance of its subsidiary, Megaworld Corporation.

DMCI Holdings, Inc. (DMC) ended in the green, with an increase of 4.5%. The growth was attributable to a significant increase of net income to P3.7 B (+22% y-o-y) in Q1-2017, as a result of the huge 52% y-o-y earnings growth of Semirara Mining Corporation.

LT Group, Inc.(LTG) managed to stay afloat, listing a minor gain of 0.3%. LTG's Philippine Airlines (PAL) has suffered from the declaration of Martial Law in Mindanao, as it received multiple cancellations and re-booking requests.

Ayala Corporation (AC) also ended flat, increasing by 0.2% in May. AC posted a net income of P6.9 B (+20% y-o-y) in Q1-2017 which fell below consensus.

JG Summit Holdings, Inc. (JGS) suffered a setback of 5.4% as JGS' Cebu Pacific, just like PAL, was also negatively affected by the declaration of martial law in Mindanao.

GT Capital (GTCAP) moderately decreased by 5.2% due to expectation that the demand for the premium brands of Toyota are likely to decrease under the auto excise tax reform.

Metro Pacific Investments Corporation (MPI) stumbled by 4.7% despite net income increasing by 14% y-o-y, in line with consensus for Q1-2017.

San Miguel Corporation (SMC) tapered its gains in the previous month despite its strong performance in May, decreasing by 1.8%. SMC's consolidated income amounted to P14.8 B (+62% y-o-y) in Q1-2017, excluding losses on foreign exchange.

The Mining and Oil sector gained momentum as it increased by 3.3% from its weak 0.8% gain in April.

Aboitiz Equity Ventures (AEV) was unable to stay afloat, posting a minor loss of 1%. AEV's consolidated income (P4.7 B) slumped by 7% y-o-y in Q1-2017 due to a 13% y-o-y decrease in the net profit of AP and the weak performance of its food segments.

Company	Symbol	4/27/17 Close	5/31/17 Close	% Change
Ayala Land, Inc.	ALI	35.30	39.40	11.6%
SM Prime Holdings, Inc.	SMPH	29.80	33.70	13.1%
Robinsons Land Corporation	RLC	25.65	24.80	-3.3%
Megaworld Corporation	MEG	4.06	4.70	15.8%

Source of Basic Data: PSE Quotation Reports

The Property sector picked up its pace as it grew by 9.7% in May from 6.4% in the previous month. Leading the charge for the second consecutive month, Megaworld Corporation (MEG) soared by another 15.8%. MEG registered a net income of P2.9 B (+11% y-o-y) in Q1-2017 with rental revenues and hotel revenues growing at 26% and 23%, respectively.

SM Prime Holdings, Inc. (SMPH) also enjoyed significant gains of 13.1%. SMPH net income for Q1-2017 increased by 13% y-o-y as a result of robust revenue expansion from its mall segment.

Not to be outdone, Ayala Land, Inc. (ALI) posted double-digit growth of 11.6% after its core net income rose to P5.6B (+18.2% y-o-y) in Q1-2017.

Bucking the trend, Robinsons Land Corporation (RLC) ended in the red, slumping by 3.3%. The net income of RLC in Q1-2017 dipped to P1.4 B (-15% y-o-y) due slower new residential project launches.

Company	Symbol	4/27/17 Close	5/31/17 Close	% Change
Philippine Long Distance Tel. Co.	TEL	1,770.00	1,728.00	-2.4%
Globe Telecom	GLO	2,078.00	2,110.00	1.5%
International Container Terminal Services Inc.	ICT	89.00	100.00	12.4%

Source of Basic Data: PSE Quotation Reports

The Services sector eased a bit, growing by 3.7% in May from 4.1% in the previous month. International Container Terminal Services, Inc. (ICT) led the sector with a growth of 12.4%. The net income of ICT for Q1-2017 was above consensus, growing to $51.7 M (+23% y-o-y) due to the strong global trade activities and the revenue contribution of their Congo port operations.

Globe Telecom (GLO) managed to stay in the green, with a minor gain of 1.5%. GLO reported a net income of P3.8 B (-13% y-o-y) with all segments easing to single digit growth rates in Q1-2017.

A lone dark spot, PLDT, Inc. (TEL) dropped by 2.4% despite improving interconnection links in Surigao del Norte. TEL reported a net income of P5.3 B (-26% y-o-y) which was in line with company guidance.

Company	Symbol	4/27/17 Close	5/31/17 Close	% Change
Semirara Mining Corporation	SCC	149.00	158.00	6.0%

Source of Basic Data: PSE Quotation Reports

The Mining and Oil sector gained momentum as it increased by 3.3% from its weak 0.8% gain in April. Semirara Mining Corporation (SCC) increased by 6% y-o-y due to a reported 52% y-o-y surge in earnings to P4.4 B in Q1-2017. Increasing sales volume of its coal segment (+24% y-o-y) continued to support SCC's strong performance.

The net buying trend continues to take shape as foreign investors turned into net buyers in May by P8.6 B, slightly less than the P9.9 B in April.

Total Turnover

Monthly Turnover (in Million Pesos)				
	Total Turnover		Average Daily Turnover	
Sector	**Value**	**% Change**	**Value**	**% Change**
Financial	31,925.7	-31.5%	1,451.2	-47.1%
Industrial	46,945.8	114.2%	2,133.9	65.5%
Holdings	43,633.9	41.1%	1,983.4	9.0%
Property	34,557.7	92.7%	1,570.8	48.9%
Services	35,209.9	39.3%	1,600.4	7.6%
Mining and Oil	6,970.3	123.0%	316.8	72.3%
Total	200,121.5	36.8%	**9,096.4**	5.7%
Foreign Buying	104,248.2	52.9%	4,738.6	18.1%
Foreign Selling	95,623.9	64.1%	4,346.5	26.8%
Net Buying (Selling)	8,624.3	-13.0%	392.0	-32.8%

Source of Basic Data: PSE Quotation Reports

The total turnover increased by 36.8%, completely reversing its weaker trading (-17%) in the previous month. The net buying trend continues to take shape as foreign investors turned into net buyers in May by P8.6 B, slightly less than the P9.9 B in April. The positive outlook of investors accounts for the resilience of the market and its growth in May. The tables have turned, as the Financial sector turnover was a lone dark spot in May, decreasing by 31.5%. Mining and Oil sector turnover significantly grew, registering an uptick of 123%. As prices kept on rising, the Industrial and Property sector turnover increased by 114.2% and 92.7%, respectively. Despite overall prices remaining flat, Holdings and Services sector rose by 41.1% and 39.3%, respectively.

Recent Economic Indicators

NATIONAL INCOME ACCOUNTS, CONSTANT PRICES (In Million Pesos)

	2015		2016		4th Quarter 2016			1st Quarter 2017		
	Levels	Annual G.R.	Levels	Annual G.R.	Levels	Quarterly G.R.	Annual G.R.	Levels	Quarterly G.R.	Annual G.R.
Production										
Agri, Hunting, Forestry and Fishing	719,748	0.1%	710,590	-1.3%	213,317	33.2%	-1.1%	182,117	-14.5%	4.9%
Industry Sector	2,535,796	6.0%	2,738,320	8.0%	753,820	17.4%	7.6%	686,726	-9.6%	6.1%
Service Sector	4,338,284	6.8%	4,664,261	7.5%	1,229,221	7.1%	7.4%	1,141,072	-7.0%	6.8%
Expenditure										
Household Final Consumption	5,264,137	6.3%	5,628,318	6.9%	1,592,837	19.8%	6.3%	1,394,750	-12.4%	5.7%
Government Final Consumption	785,347	7.8%	850,747	8.3%	186,934	-7.2%	4.0%	207,409	11.0%	0.2%
Capital Formation	1,805,281	15.1%	2,180,842	20.8%	630,271	21.1%	15.0%	607,768	-3.6%	7.9%
Exports	3,681,166	9.0%	4,016,105	9.1%	891,272	-20.8%	10.4%	1,192,923	33.8%	20.3%
Imports	3,942,163	14.0%	4,631,536	17.5%	1,126,599	-9.0%	15.0%	1,377,758	22.3%	17.5%
GDP	7,593,828	5.9%	8,113,170	6.8%	2,196,358	12.6%	6.6%	2,009,914	-8.6%	6.4%
NPI	1,540,910	5.3%	1,622,040	5.3%	433,064	11.4%	4.1%	433,510	2.0%	3.9%
GNI	9,134,739	5.8%	9,735,210	6.6%	2,629,423	12.4%	6.1%	2,443,425	-6.9%	5.9%

Source: National Statistical Coordination Board (NSCB)

NATIONAL GOVERNMENT CASH OPERATION (In Million Pesos)

	2015		2016		March-2017			April-2017		
	Levels	Growth Rate	Levels	Growth Rate	Levels	Monthly G.R.	Annual G.R	Levels	Monthly G.R.	Annual G.R
Revenues	2,108,956	10.5%	2,195,914	4.1%	180,237	18.7%	14.2%	235,876	30.9%	-4.4%
Tax	1,815,475	5.6%	1,980,390	9.1%	156,383	12.6%	12.1%	219,882	40.6%	3.8%
BIR	1,433,302	7.4%	1,567,214	9.3%	117,149	10.7%	10.8%	187,670	60.2%	5.6%
BoC	367,534	-0.5%	396,365	7.8%	37,333	21.0%	15.3%	31,142	-16.6%	-4.8%
Others	14,639	-2.1%	16,811	14.8%	1,901	-10.7%	32.3%	1,070	-43.7%	-23.4%
Non-Tax	293,317	54.9%	215,446	-26.5%	23,852	83.7%	30.4%	15,983	-33.0%	-54.2%
Expenditures	2,230,645	12.6%	2,549,336	14.3%	241,708	37.7%	4.1%	183,079	-24.3%	-4.5%
Allotment to LGUs	387,559	12.6%	449,776	16.1%	40,774	0.1%	4.5%	49,647	21.8%	38.5%
Interest Payments	309,364	-3.7%	304,454	-1.6%	31,272	29.1%	-12.5%	13,483	-56.9%	-8.7%
Overall Surplus (or Deficit)	(121,689)	66.5%	(353,422)	-190.4%	(61,471)	-159.1%	17.4%	52,797	185.9%	-4.0%

Source: Bureau of the Treasury (BTr)

POWER SALES AND PRODUCTION INDICATORS
Manila Electric Company Sales (In Gigawatt-hours)

	2016		December-2016			January-2017		
	Annual Levels	Growth Rate	Levels	Y-o-Y G.R.	YTD	Levels	Y-o-Y G.R.	YTD
TOTAL	39,583	8.1%	3214.90	4.9%	8.1%	3062.10	6.8%	6.8%
Residential	12,439	11.9%	974.30	5.1%	11.9%	970.40	7.4%	7.4%
Commercial	15,648	8.2%	1302.80	6.3%	8.2%	1244.30	7.0%	7.0%
Industrial	11,362	4.2%	926.70	3.0%	4.2%	836.10	5.7%	5.7%

BALANCE OF PAYMENTS (In Million U.S. Dollar)

	2015		2016		3rd Quarter 2016		4th Quarter 2016	
	Levels	Annual G. R.	Levels	Annual G. R.	Levels	Annual G. R.	Levels	Annual G. R.
I. CURRENT ACCOUNT	7,266	(32.4%)	601	(91.7%)	763	(20.4%)	(1,032)	(171.6%)
Balance of Trade	(17,854)	40.0%	(26,955)	51.0%	(6,129)	21.8%	(8,238)	53.5%
Balance of Goods	(23,309)	34.5%	(34,079)	46.2%	(7,943)	25.5%	(9,973)	33.8%
Exports of Goods	43,197	(13.3%)	43,444	0.6%	11,933	6.8%	10,618	3.8%
Import of Goods	66,506	(1.0%)	77,524	16.6%	19,876	13.6%	20,592	16.5%
Balance of Services	5,454	19.2%	7,125	30.6%	1,814	40.1%	1,735	(16.7%)
Exports of Services	29,065	14.0%	31,357	7.9%	8,155	15.0%	7,211	(5.2%)
Import of Services	23,610	12.9%	24,233	2.6%	6,341	9.4%	5,476	(0.8%)
Current Transfers & Others	-	-	-	-	-	-	-	-
II. CAPITAL AND FINANCIAL ACCOUNT	2,385	(75.5%)	1,051	(55.9%)	877	81.3%	78	(91.8%)
Capital Account	84	(21.9%)	102	21.4%	28	27.3%	24	3.6%
Financial Account	2,301	(76.1%)	949	(58.8%)	849	267.8%	54	(94.2%)
Direct Investments	(99)	(109.8%)	(4,235)	4,149.6%	(387)	184.4%	(1,829)	2,107.4%
Portfolio Investments	5,471	102.0%	1,383	(74.7%)	(634)	(130.1%)	(309)	(220.9%)
Financial Derivatives	6	40.8%	(32)	(673.4%)	(11)	(164.3%)	(78)	(530.9%)
Other Investments	(3,076)	(152.1%)	3832	(224.6%)	1,882	175.5%	2,269	208.4%
III. NET UNCLASSIFIED ITEMS	(2,433)	(40.5%)	(175)	(92.8%)	1,073	(178.7%)	(1,006)	(472.3%)
OVERALL BOP POSITION	(2,616)	(191.5%)	(420)	(116.1%)	1,014	719.4%	(2,068)	(355.8%)
Use of Fund Credits	-	0.0%	-	0.0%	-	-	-	-
Short-Term	-	53.2%	-	(6,678.9%)	11	0.0%	(10)	(2.9%)
Memo Items								
Change in Commercial Banks	(1,164)	(119.2%)	(1,510)	(229.7%)	548	134.1%	63	340.3%
Net Foreign Assets	(1,065)	(117.8%)	(1,470)	(238.1%)	461	140.5%	184	142.6%
Basic Balance	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a

Source: Bangko Sentral ng Pilipinas (BSP)

MONEY SUPPLY (In Million Pesos)

	2016		March-2017		April-2017	
	Average Levels	Annual G. R	Average Levels	Annual G.R.	Average Levels	Annual G.R.
RESERVE MONEY	13,502,588	13.9%	13,775,656	12.2%	13,647,762	(0.9%)
Sources:						
Net Foreign Asset of the BSP	4,308,975	7.8%	4,377,811	7.2%	4,351,982	(0.6%)
Net Domestic Asset of the BSP	9,193,613	17.0%	9,397,845	15.9%	9,295,780	(1.1%)
MONEY SUPPLY MEASURES AND COMPONENTS						
Money Supply-1	3,069,611	15.1%	3,113,007	15.1%	3,173,320	1.9%
Money Supply-2	9,137,898	13.2%	9,189,636	12.5%	9,171,016	(0.2%)
Money Supply-3	9,497,935	12.7%	9,535,511	12.6%	9,521,176	(0.2%)
MONEY MULTIPLIER (M2/RM)	0.68	-0.5%	0.66	0.7%	0.67	0.7%

Source: Bangko Sentral ng Pilipinas (BSP)

June 2017

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